



SUPERVISORY INTERVENTION FRAMEWORK FOR THE NIGERIAN



BANKING SUPERVISION DEPARTMENT/
FINANCIAL POLICY & REGULATION
DEPARTMENT
FEBRUARY 2011

INTRODUCTION

This framework provides general and specific thresholds for regulatory interventions in banks in respect of the specified prudential indicators. It also provides the regulators with benchmarks for a global concern regarding the safety and soundness of the banking system.

The regulatory authorities are mindful of the potential systemic effects of the distress of an individual bank on the soundness of the banking system as a whole as well as the impact of a fragile financial system on the economy.

Notwithstanding the powers of the CBN in the control of a failing bank as spelt out in Sections 33 to 35 of BOFIA, experience has shown that capital deficiency is only a fragment of a whole lot of critical indicators of the health of a bank and of the banking system. The Act does not provide specific actions needed by the regulatory authorities to check concerns about liquidity, asset quality, earnings and internal control system among other factors that have direct impact on the health of the bank.

This framework is being introduced to replace the contingency framework and complement the Revised Prudential Guidelines issued in July 2010, taking into cognizance the developments in the Nigerian banking industry, such as the adoption of Risk Based Supervision and the review of the banking structure. They are given in four parts:

Part 1: General Supervisory Approach

Part 2: Supervisory Intervention in Individual Banks

Part 3: Risk Based Ratings and Supervisory Action

Part 4: Supervisory Actions in the Event of Systemic Banking
Distress

All banks and discount houses are invited to note and be guided accordingly.

PART ONE
GENERAL SUPERVISORY APPROACH

Supervision involves assessing the safety and soundness of regulated financial institutions, providing feedback to the institutions, and using supervisory powers to intervene in a timely manner to achieve supervisory objectives. The CBN has started the implementation of Risk-Based Supervision predicated upon a coordinated action plan in the lifecycle of a financial institution.

This process includes on-going/off-site monitoring and on-site examination of the institutions. Offsite monitoring, for instance, provides an early warning of the potential areas of concern or risk exposure as well as macro information about the banking industry. The on-site examination, on the other hand, enhances the sustenance of public confidence and the integrity of the banking system. Onsite examination also provides the best means of determining the institution's adherence to laws and regulations and helps to prevent problem situations from remaining uncorrected and deteriorating to the point that resolution is required.

The following key principles form the basis of Risk- Based Supervision, it:

- enables a better evaluation of risks through the separate assessment of inherent risks and risk management processes;
- is a dynamic, forward looking process, placing greater emphasis on the early identification of emerging risks and system-wide issues;
- is applied on a consolidated basis, supplemented with information from other regulators as appropriate. It includes an assessment of material risks in all entities (subsidiaries, branches, or joint ventures) both in Nigeria and internationally;
- allows the supervisor to prioritize efforts and focus on significant risks by channeling resources to banks that have higher risk profiles. Work performed will be focused on clearly identified risks or areas of

concern. Institutions that are well managed relative to their risks will generally require less supervision while systemically important institutions would be given special focus;

- Includes the review of major risk management control functions such as Board and Senior Management Oversight, Internal Audit, Risk Management, Compliance and Financial Analysis.

It culminates in Composite Risk Rating. The composite risk rating is a significant factor in determining a supervisory response and plan for an institution. The degree of supervisory intervention will reflect the risk profile of the institution, and largely driven by the composite risk rating.

The Composite Risk will be rated as **low, moderate, above average or high with 1 being low, 2 moderate while 3 and 4 are institutions rated above average and high respectively.**

1.1 Supervisory Measures

These are measures designed primarily to address practices, conditions or infractions that could result in risk of loss or damage to a financial institution. The supervisory actions taken are both informal and formal.

Informal actions are usually applied to banks with a composite rating of 1 or 2 and may not be publicly disclosed by the institutions and are generally not enforceable in law.

Formal actions are legally enforceable agreements requiring a bank to take remedial measures towards enforcement. These actions are publicly disclosed and enforceable in law.

The choice of the actions would be guided by the following key considerations:

- Nature of the situation;
- Cause and/or motivation – these could arise from any or the combination of the following situations:
 - Lack of understanding of the potential risks relating to a particular business entity
 - Lack of fundamental knowledge or awareness of the operating or other requirements for critical business activities
 - Motives may not be consistent with their institutions' best interests
 - Weak or ineffective risk management programs
- History of compliance,
- Systemic impact to-date,
- Risk exposure or profile,
- Parties involved (e.g. insiders),
- Management attitude,
- Prospects,

1.2 Supervisory Measures- Informal Actions

The informal actions include:

- a) Supervisory Letter - Report of findings and recommendations to the institution.
- b) Board Resolutions – unilateral actions adopted by the bank's board of directors although CBN would generally provide input.

- c) Memorandum of Understanding – are corrective agreements between the CBN and the bank's board.

The informal actions may be appropriate if:

- ✓ Composite risk rating is not worse than moderate
- ✓ Marginally unsatisfactory financial condition
- ✓ Action is needed to address specific concerns
- ✓ CBN has confidence in the management of the financial institution
- ✓ Management of the institution needs a “wake-up call”
- ✓ Violations involving the institution's affiliate/subsidiary

1.3 Supervisory Measures – Formal Actions

Formal actions include:

- a) Termination of NDIC Insurance
- b) Consent Order – the CBN may require affirmative action from a financial institution to correct unsafe and unsound conditions
- c) Temporary Cease and Desist Order – the CBN may require an institution to cease and desist from unsafe or unsound practices and violations. For instance, where the institution dissipates its assets.
- d) Removal and Prohibition – the CBN may remove an officer of a financial institution and its related parties and or prohibit such person from participating in the affairs of any licensed financial institution. A black book is maintained for all bank employees.
- e) Monetary Penalties – for violation of any law or regulations, final order (consent order), written agreements and violation of any condition imposed in writing.

- f) Prompt Corrective Action Directive – provides actions for institutions that are not adequately or well capitalized or not meeting the prudential requirements.
- g) Inter-Agency Problem Bank Meetings – Board/Management to meet with CBN/NDIC
- h) Projected Failure Reports – Stress testing

These measures would be taken when;

- ✓ Composite risk rating is above average or high
- ✓ Informal actions have been unsuccessful
- ✓ Unsafe and Unsound Practices are evident
- ✓ There are violations of laws, rules, regulations and written agreements.

1.4 Other Supervisory Measures are:

- a) Investigations
- b) Suspicious Activity Reports
- c) Referral to Other Agencies
- d) Actions against Professionals

PART TWO

SUPERVISORY INTERVENTION IN INDIVIDUAL BANKS

The Director of Banking Supervision is to closely monitor 'troubled institutions' which include those whose composite rating is above average. Such institutions would generally be subjected to prompt corrective actions (PCA), and Risk Based Supervisory Rating (RBSR) and Supervisory measures.

For every financial institution, the supervisory actions specified against each of the conditions in the table on PCA and RBSR are to be taken by the regulatory authorities.

2.1 Prompt Corrective Actions (PCA)

This provides supervisors with actions to monitor each financial institution's compliance and performance against seven critical elements. Corrective measures are taken in response to the deteriorating compliance or performance of such a financial institution.

S/N	Condition of a Bank		Supervisory Action
1	CAPITAL ADEQUACY	<p>A. <u>Under Capitalized Banks.</u></p> <p>A bank with Capital Adequacy Ratio (CAR) greater than 5% but less than the prescribed minimum CAR of 10% in any one month, actions (a-c) will apply but where the condition persists for more than three months, take action (d) and (e) in addition.</p>	<p>Any or a combination of the following:</p> <ul style="list-style-type: none">a) Restrict investment in other subsidiaries/related companies.b) Restrict investment in fixed assetsc) Restrict dividend paymentd) Conduct special examinatione) Place the bank in CBN/NDIC Watch list and inform the bank that it has been placed on that status.

S/N	Condition of a Bank	Supervisory Action
	<p data-bbox="448 241 919 304">B. <u>Significantly Under Capitalized Banks</u></p> <p data-bbox="448 371 919 434">A bank with CAR of equal to or greater than 2% but less than 5%.</p>	<p data-bbox="935 241 1410 371">If the supervisory actions in (a) – (e) above do not bring stability, a combination of the following may be used:</p> <ul style="list-style-type: none"> <li data-bbox="935 405 1410 501">f) Restrict new lending to recoveries made (Zero-based lending). <li data-bbox="935 539 1410 636">g) Request for business plan on how fresh funds are to be injected into the bank <li data-bbox="935 674 1410 792">h) CBN to review business plan within two weeks and communicate to the bank its acceptability or otherwise; <li data-bbox="935 831 1410 994">i) The CBN should make the final capital call on the bank within 4 months from time of acceptance of the business plan; <li data-bbox="935 1032 1410 1196">j) Within two months after the final capital call, the CBN may take over management and control of the bank and hand it over to NDIC; <li data-bbox="935 1234 1410 1733">k) The CBN may appoint the NDIC, which may consider the following options: <ul style="list-style-type: none"> <li data-bbox="999 1352 1410 1449">• Recapitalisation and restructuring by new investors; <li data-bbox="999 1487 1410 1583">• Create incentives for healthy banks to take over the sick one; and <li data-bbox="999 1621 1410 1733">• Encourage private debt factoring companies to acquire the bad debts of the bank.

S/N	Condition of a Bank	Supervisory Action
	<p>C. <u>Critically Undercapitalized Banks</u>:</p> <p>Banks with CAR less than 2% but greater than zero</p>	<p>Any one or a combination of the following in addition to [B] above:</p> <p>l) CBN to take over management immediately and/or</p> <p>m) Inject funds to stabilize the bank and demand that shareholders should capitalize within six months; otherwise sell bank</p>
	<p>D. <u>Insolvent Banks</u></p> <p>Banks that have negative CAR.</p>	<p>If the supervisory actions in [C] above do not stabilize bank:</p> <p>n) Revoke the bank's licence</p>
2	<p>LIQUIDITY</p> <p>A. <u>Slightly Illiquid Bank</u></p> <p>Any one or a combination of the following conditions:</p> <p>I. A bank that records a liquidity ratio of not more than 25% (1/4) below the minimum prescribed by the CBN (i.e. scores 75% and above but below the prescribed minimum liquidity ratio)</p> <p>II. A bank that is continually taking deposits from the public at more than 25% above the mean market deposit rate</p>	<p>Any one or both of (a) and (b):</p> <p>a) Invite management for discussion on its plans to improve liquidity</p> <p>b) Submit plan to CBN for approval and implementation to enhance liquidity</p>
	<p>B. <u>Significantly Illiquid Bank</u></p> <p>Any one or a combination of the following conditions:</p> <p>I. A bank that records a liquidity ratio of 50% (1/2) below the minimum prescribed by the CBN (i.e. scores between 50% and 75% of the prescribed minimum); and/or</p>	<p>In addition to the supervisory actions in (a) – (b) above if they do not improve liquidity:</p> <p>c) The CBN to conduct spot check to investigate the problem of the bank including compliance with its own contingency plan</p> <p>d) Invite the board and management for discussion on what they are doing to address the problem.</p>

S/N	Condition of a Bank	Supervisory Action
	<p>II. A bank that is a persistent net taker in the interbank market and frequently accesses the CBN Discount Window for financial accommodation.</p> <p>III. A bank that overdraws its current account with the CBN and not covered the next working day consecutively for five working days within a month.</p> <p>IV. The bank suffers clearing operation deficits for 5 consecutive days i.e. adverse clearing settlement position without adequate cover to the extent that recourse had to be made to the clearing collateral.</p> <p>V. The bank is a net taker of interbank deposit of up to 25% of its total deposits for a consecutive period of 90 days.</p>	<p>e) Request the bank to realize assets that do not qualify for inclusion in liquidity ratio computation</p> <p>f) Request bank to embark on aggressive debt recovery.</p> <p>g) Advise bank to divest from subsidiaries or related companies.</p> <p>h) Advise bank to seek short-term liquidity support from NDIC.</p> <p>i) CBN may provide financial support and other lender of last resort actions.</p>
	<p>C. <u>Critically Illiquid Bank</u></p> <p>Any one or a combination of the following:</p> <p>I. A bank that records liquidity ratio of less than 50% (1/2) of the minimum prescribed by the CBN (i.e. scores below 50% of the prescribed minimum); and</p> <p>II. A bank that is suspended from clearing by its settlement bank or suffers clearing operations deficit for 5 consecutive days i.e. had an adverse clearing settlement position without adequate cover to the extent that recourse had to be made to the clearing collateral.</p> <p>III. The bank is unable to pay maturing obligations for 5 days.</p>	<p>Any one or a combination of the following, in addition to (a) to (i) above:</p> <p>j) Change management and/or board.</p> <p>k) Advise the bank to apply for NDIC liquidity support, on condition that it is not technically insolvent.</p> <p>l) Suspend the bank from clearing house until it makes good its adverse clearing position.</p>

S/N	Condition of a Bank	Supervisory Action
3	<p>ASSET QUALITY</p> <p>A. <u>Weak Asset Quality</u></p> <p>Any one or a combination of the following conditions:</p> <ul style="list-style-type: none"> I. Where the proportion of non-performing credits to total credits is not more than 10% above the tolerable limit prescribed by the CBN, or II. Deficient credit administration practices as indicated in examination reports, or III. Non-compliance with a bank's established policies on credit concentration and monitoring. IV. Total outstanding exposure by a bank to any single person or group of related persons is more than 20% of its shareholders fund unimpaired by losses. V. Total exposure (on and off balance sheet) to all tiers of government is in excess of 10% of its aggregate loan portfolio. VI. Aggregate large exposures in the bank exceeds eight times the shareholders fund unimpaired by losses. VII. When the total credit to a single customer exceeds the limit as prescribed by the CBN from time to time. 	<p>A combination of all of the following:</p> <ul style="list-style-type: none"> a) CBN to conduct a special/target examination to determine the factors responsible for the increase in non-performing credits. b) Request for action plan from management to address the problem within three months. c) Request bank to improve credit administration practices. d) CBN to request bank to make additional loan loss provision. e) CBN to direct the bank's board to regularize the excess limit within three months and to make additional provision for the excess.
	<p>B. <u>Critically Weak Asset Quality</u></p> <p>Any or a combination of these conditions:</p> <ul style="list-style-type: none"> I. Where the ratio of non-performing credits to total credits is more than 10% above the CBN prescribed limit. 	<p>In addition to the supervisory actions in (a) – (e) above if the problem is not addressed, take any combination or all of the following:</p> <ul style="list-style-type: none"> f) The bank should recall improperly booked loans g) Errant Director(s) to be removed or blacklisted for

S/N	Condition of a Bank	Supervisory Action
	<p>II. Where more than 10% of non-performing credits are insider related.</p> <p>III. Where 25% of total non-performing loans are insider related.</p>	<p>non-performing insider credits</p> <p>h) Further loans to subsidiary/related companies be stopped</p> <p>i) Bank should divest from the subsidiary/related company where the activities of the subsidiary/related company are inimical to the health of the bank</p>
4	<p>EARNINGS</p> <p>A. <u>Declining Earnings</u></p> <p>A bank's earnings could be said to be declining where one or a combination of the following conditions hold:</p> <p>I. A bank records losses for three consecutive months.</p> <p>II. There is a drop in net operating income by 20% relative to the previous month.</p> <p>III. Excessive increases in operating expenses relative to income.</p> <p>B. <u>Inconsistent Earnings</u></p> <p>Any one or a combination of:</p> <p>I. A bank persistently depends on non-recurring/non-core sources of income to shore up profit.</p> <p>II. Earnings outlook for next 12 months is uncertain and remain negative.</p>	<p>Any one or a combination of the following:</p> <p>a) Conduct spot check/income audit to ascertain the problem</p> <p>b) Invite the board and management to discuss the problem.</p> <p>c) Restrict dividend payment.</p> <p>d) Restrict top management and board appointments.</p> <p>In addition to (a) – (d) above, any one or a combination of the following actions may be taken:</p> <p>e) Bank will be directed to submit a business and asset restructuring plan detailing how it intends to enhance income from core banking activities.</p> <p>f) Restrict payment of dividends and profit sharing</p>

S/N	Condition of a Bank	Supervisory Action
	<p data-bbox="448 241 890 273">C. <u>Excessive Increase in Earnings</u></p> <p data-bbox="448 309 916 405">A bank's earnings may be considered as increasing at an excessive rate where:</p> <ul style="list-style-type: none"> <li data-bbox="480 441 916 600">I. A bank records more than 25% increase in operating income over the previous period consecutively for more than three months. <li data-bbox="480 636 916 795">II. Increase in operating income of more than 50% compared to increase in operating expenses during an accounting period. 	<ul style="list-style-type: none"> <li data-bbox="991 241 1406 338">g) Conduct income audit of the bank to ascertain the reason for the increase. <li data-bbox="991 374 1406 470">h) Review bank's compliance with the Guide to Bank Charges. <li data-bbox="991 506 1406 624">i) Request bank to forward its budget and justify significant variations in income forecast.
5	<p data-bbox="252 896 395 958">INTERNAL CONTROLS</p> <p data-bbox="448 896 916 1088">A. Significant non-compliance with manual of operations, e.g. non-adherence to credit approval limits and non-compliance with AML/CFT and KYC guidelines.</p>	<p data-bbox="938 896 1401 958">Any or a combination of the following:</p> <ul style="list-style-type: none"> <li data-bbox="938 994 1406 1153">a) Write management/board to draw their attention to the lapse(s) and obtain commitment to remedy the anomaly. <li data-bbox="938 1189 1406 1348">b) Warn the MD/CEO and the Chief Compliance officer, if the observed lapses were found to have continued in the next monitoring exercise. <li data-bbox="938 1384 1406 1509">c) Remove the Managing Director/Chief Executive where the infraction persists after the first monitoring exercise. <li data-bbox="938 1545 1406 1671">d) Warn the Chairman of the Board and get the board commitment to ensure strict compliance with the manual.

S/N	Condition of a Bank	Supervisory Action
	<p>B. <u>Rising trend of fraud/forges</u></p>	<p>Any or a combination of the following:</p> <p>a) Write the bank to request for reasons for the abnormal increase in fraud cases and measures to address them.</p> <p>b) CBN/NDIC to conduct a target examination to review the bank's internal control processes and operating manuals.</p> <p>c) Query the Chairman of the Board and Managing Director/CEO of the bank.</p>
	<p>C. Non-implementation of internal audit findings and previous examiners'/ auditors' recommendations.</p>	<p>Any or both (a) and (b):</p> <p>a) CBN to give the board three months ultimatum to implement the recommendations from the date of issuance of the query.</p> <p>b) Remove MD/CEO if the infraction persists after the three months period.</p>
	<p>D. <u>Deliberate Misreporting</u>:</p> <p>Failure of a bank to disclose material information or giving misleading or false information in the financial statements</p>	<p>Remove the compliance officer and the Managing Director/CEO</p>
	<p>E. <u>Non-adherence to COSO and COBIT frameworks (where applicable)</u></p>	<p>Any or both of (a) and (b):</p> <p>a) Query the Heads, Internal Control and Audit and Financial Control of the bank as well as the Chairman of the Audit Committee of the Board.</p> <p>b) Remove the officers/directors where the non-compliance persists as may be confirmed by special or risk-based examination reports.</p>

S/N	Condition of a Bank	Supervisory Action
6	<p>RISK MANAGEMENT</p> <p>The institution has significant issues in risk management or control deficiencies, which present a serious threat to its financial viability or solvency unless corrective measures are promptly and effectively implemented.</p>	<p>Any or both of (a) and (b):</p> <p>a) CBN may direct specialist teams or professionals to assess certain areas of the bank's operations such as quality of collateral security for loans, asset valuation, adequacy of the capital reserves and risk management practices.</p> <p>b) Impose restriction on the bank's business activities</p>
7	<p>PERSISTENT COMPLAINTS OF SYSTEM FAILURE</p> <p>Any or both of the following:</p> <ol style="list-style-type: none"> I. IT system failure and/or disruption to IT infrastructure that makes it difficult for a bank to process customers' transactions for up to five working days. II. IT system failure and/or disruption that results in inability of the bank to render its statutory returns to the CBN and NDIC for more than two weeks for daily returns and two months for monthly returns. 	<p>Any one or a combination of (a) – (c):</p> <p>a) Send an IT Specialist Examination Team to the bank to determine the cause of the problem.</p> <p>b) Invite the management and board to a meeting with the CBN where the problem persists.</p> <p>c) Forbid the bank from taking new deposits and undertaking new business</p>

PART THREE

RISK BASED RATINGS AND SUPERVISORY ACTIONS

Notwithstanding any measures taken under the Prompt Corrective Actions in Section 4.1 above, the outcome of the risk profiling of a bank may require further regulatory actions based on the composite risk rating of the bank, as shown below:

S/N	Composite Risk Rating	Condition of a Bank	Supervisory Action
A	LOW COMPOSITE RISK RATING	<p>The following conditions are applicable to a bank with low composite risk rating:</p> <ul style="list-style-type: none"> I. Sound in every respect and generally have risk composite rating denoted as LOW; II. An institution where the financial situation is stable; III. Policies and procedures are adequate and standard; IV. There is robust risk management system in place; V. There is observed good corporate governance; VI. No breach of any regulatory procedures, no unresolved regulatory concerns, etc. 	<p>The institutions will be subject to the 'normal' supervisory process.</p>
B	MODERATE COMPOSITE RISK RATING	<p>The following are considered as conditions of a bank with moderate composite risk:</p> <ul style="list-style-type: none"> I. Fundamentally sound and with composite risk rating not above MODERATE; II. There is no significant deficiency in financial conditions; 	<p>The supervisory actions to be taken include the following:</p> <ul style="list-style-type: none"> a) Formally notify management, board and external auditors of regulator's concern and the non-prescriptive measure required to rectify the identified deficiencies;

S/N	Composite Risk Rating	Condition of a Bank	Supervisory Action
		<p>III. There is observed deficiency in policies and procedures that if not addressed in the short term could lead to a more serious threat to safety and soundness or may make the institution progress to a watch-list status;</p> <p>IV. Have confidence in management, yet it needs a wake-up call.</p>	<p>b) Meet with management, board and external auditors to outline supervisory concerns and discuss remedial actions;</p> <p>c) Enhance monitoring i.e. increase the frequency of reporting requirements and expanding the level of details required;</p> <p>d) Conduct enhanced or more frequent on-site reviews;</p> <p>e) Enter into MOU agreements with the institution where it voluntarily agrees to something or cease to do some things;</p> <p>f) Board Resolution of actions to be taken by the bank to address the issue;</p> <p>g) Require the institution to increase its capital, provisions, strengthening of its controls, liquidity, etc; and</p> <p>h) Impose business restriction i.e. holding action or a direction on the institution to do something or stop doing something.</p>
C	ABOVE AVERAGE COMPOSITE RISK RATING	<p>The following are considered as conditions of a bank with above average composite risk:</p> <p>I. There are some risks which are not of immediate threat to financial viability or solvency;</p> <p>II. Having some concerns in one or more areas that may range from moderate to severe;</p>	<p>The supervisory actions to be taken, in addition to the above, include the following:</p> <p>a) Enhance monitoring of remedial measures through imposing more frequent reporting requirement;</p> <p>b) Conduct follow up on-site reviews more frequently and/or enlarge their scope;</p>

S/N	Composite Risk Rating	Condition of a Bank	Supervisory Action
		<p>iii. The institution poses a material concern in relation to safety and soundness that could deteriorate into a serious situation if not addressed promptly.</p>	<p>c) Require the institution to incorporate in the business plan appropriate remedial measures aimed at rectifying problems within a specified timeframe;</p> <p>d) Require the external auditors to enlarge the scope of the review of the financial statements and/or perform other procedures and/or conduct a special audit and prepare a report thereon;</p> <p>e) Require the institution to eliminate dividends and the payment of fees, particularly to related parties;</p> <p>f) Prohibit or limit related party transactions;</p> <p>g) Prohibit both foreign and domestic branch expansion programme; and</p> <p>h) Develop a contingency plan to enable CBN to seize control of the institution in case of rapid deterioration</p> <p>i) Place on CBN watch list</p>
D	HIGH COMPOSITE RISK RATING	<p>The following are considered as condition of a bank with a high composite risk:</p> <p>I. Generally exhibits unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance;</p> <p>II. Future financial viability is in serious doubt;</p>	<p>The supervisory actions to be taken, in addition to the above, include any or a combination of the following:</p> <p>a) Direct external professionals to assess certain areas such as loan quality, sufficiency of reserves;</p> <p>b) Enhance the scope of business restrictions that have already been imposed on the institution and/or expand the level of detail of information it</p>

S/N	Composite Risk Rating	Condition of a Bank	Supervisory Action
		<p>III. The problems range from severe to critically deficient;</p> <p>IV. Insolvency is imminent;</p> <p>V. Where it has failed to remedy the problems identified by regulators and the situation is worsening;</p> <p>VI. Capital requirement not met;</p> <p>VII. Serious risk management and control deficiencies;</p> <p>VIII. Exhibit extremely unsafe and unsound practices or conditions;</p>	<p>is required to submit to the regulators;</p> <p>c) More intrusive monitoring by on-site examiners</p> <p>d) Expand contingency planning;</p> <p>e) Communicate to management and the board the importance of considering resolution options such as restructuring the institution or seeking prospective purchaser;</p> <p>f) Support possible restructuring transactions by making or guaranteeing loans or advances to the institution (where the institution is considered systemically important) acquire assets from the institution (AMCON);</p> <p>g) Assist in finding a prospective purchaser;</p> <p>h) Enforce actions against individuals (officers/ directors) – removal, prosecution;</p> <p>i) Recommend that NDIC terminates the institution's policy of deposit insurance;</p> <p>j) Revoke the operating licence/take control of the institution/apply to wind up the institution.</p> <p>k) Other actions: investigations, suspicious activity reports, referrals to other agencies, actions against professionals.</p>

PART FOUR
SUPERVISORY ACTIONS IN THE EVENT OF SYSTEMIC BANKING DISTRESS

For the purpose of the current framework, a systemic distress would be deemed imminent whenever at least, two of the following situations occur:

- a) The bank(s) that are critically distressed control 12.5% of the total assets in the industry;
- b) 12.5% or more of total deposits are threatened; and
- c) 12.5% or more of banking system's total loans are not performing.
- d) When 25% of the banks in the system have applied for liquidity support in excess of 50% of the aggregate takings from the CBN window or total interbank funds in the market or have been suspended by their settlement banks for failure to meet clearing obligations.

Whenever systemic crisis occurs, the CBN and NDIC would jointly establish Crisis Management Unit (CMU) to determine the condition of all banks in the system and take immediate remedial actions.

We state hereunder appropriate thresholds and supervisory actions that would guide regulatory response to possible systemic distress in the banking system in the future.

S/N	Condition of the Banking Industry	Supervisory Action
1	<p>A. Total Assets</p> <p>i) The bank(s) that are critically distressed control 15% of industry total assets in the industry.</p>	<p>CBN to utilize any one or a combination of (a) – (c):</p> <ul style="list-style-type: none"> a) Inject fund as bridging loan into identified bank(s) in sufficient amount to stabilize the ailing bank b) Dissolve board and management of identified weak banks. CBN assumes full management and control. c) NDIC to provide partial/full liquidity support.

S/N	Condition of the Banking Industry	Supervisory Action
2	<p>B. Total Deposits</p> <p>Any or both (i) and (ii):</p> <p>i. 12.5% of total deposits in the system are threatened due to banks' inability to honour obligations arising from macro economic shocks or changes in government policy.</p> <p>i. The deposits of any bank that controls up to 10% of total market share are threatened to the tune of 25%. i.e. such high impact banks have lost at least 25% of its deposits.</p>	<p>Any one or a combination of (a) – (c):</p> <p>a) Guarantee all private deposits, interbank, foreign credits and pension funds.</p> <p>b) Inject funds to threatened banks in order to improve their liquidity positions.</p> <p>c) Investigate the cause of the loss of deposits and were necessary, to dissolve and takeover management and board of affected banks.</p> <p>d) NDIC to provide partial/full liquidity support.</p>
3	<p>C. Asset Quality</p> <p>i. 12.5% of banking system's total loans and advances are not performing</p>	<p>Any one or a combination of (a) – (e):</p> <p>a) inject funds in form of loan to the tune of toxic assets in the affected bank(s)</p> <p>b) investigate the cause of toxic asset and sanction erring boards / management where necessary</p> <p>c) Restructure toxic assets and sell to willing buyers.</p> <p>d) Affected banks to restructure their delinquent risk asset.</p> <p>e) Transfer ailing banks delinquent risk asset portfolio to Asset Management Company of Nigeria.</p>
4	<p>D. Liquidity</p> <p>i. When 25% of the banks in the system have applied for liquidity support in excess of 50% of the aggregate takings from the CBN window</p> <p>i. 25% of the banks in the system have been suspended by their settlement banks for failure to meet clearing obligations.</p>	<p>Any one or a combination of (a) – (c):</p> <p>a) CBN to provide financial support as lender of last resort actions.</p> <p>b) CBN to guarantee financial obligations to foreign banks</p> <p>c) NDIC to provide liquidity bridging support.</p>

SUPERVISORY APPEALS

In the implementation of the supervisory measures by the CBN an institution may request review of material supervisory determinations with the Director of Banking Supervision. The material supervisory determinations may include any of the following:

1. Examination ratings
2. Adequacy of the loan loss provision
3. NPL assessment
4. Other determinations that would impact the institution's capital, earnings, operating flexibility, capital category for prompt corrective actions purposes or otherwise affect the nature and level of supervisory oversight.

APPENDIX

In this framework, except otherwise stated, the terms stated below shall have the following meaning:

- | | |
|----------|---|
| 1. RAS | Risk Assessment Summary |
| 2. COBIT | Control Objectives for Information Technology (COBIT), which sets best practices for information technology management. |
| 3. COSO | Committee of Sponsoring Organisations is a unified approach for evaluation of internal control systems |